Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Consulate General of Switzerland in Hong Kong

512.0-ROH/CHW Hong Kong, 20th March 2009

Annual Economic report: Hong Kong 2008

1. Appreciation of the economic problems and issues

1.1 General overview of HK's economy: As a result of the financial crisis and a slow-down in the global economy, Hong Kong's economy suffered a heavy blow in the latter half of 2008. GDP growth fell successively from 7.3% in the first quarter, to 4.3% in the second quarter, 1.7% in the third quarter, and -2.5% in the fourth quarter. For 2008 as a whole, GDP grew by 2.5%, lower than the trend growth rate over the past 10 years. Growth of exports of goods and services slowed to 2% and 5.6% respectively while private consumption growth slowed significantly to 1.8% in 2008. The labour market condition has started to worsen amid business contraction triggered by the global economic crisis. The unemployment rate has been on an uptrend for a few months, registering 5% for the three-month period ending February 2009. It was the highest since Feb.-April 2006.

Visitor arrivals reached 29.5 million (+4.7%) in 2008. Mainland visitors, account for 57% of total tourist arrivals, reached 16.8 million (+8.9%).

1.2 Measures adopted by the HKSAR Government in response to the financial crisis

1.2.1 Measures to stabilize the financial market: Previously about US$ 12,800 (HK$100,000) per depositor was protected under a bank-funded scheme. The Hong Kong Government announced new measures in October 2008 to strengthen the confidence in the banking system. They would use the Exchange Fund, the reserve backing Hong Kong dollars, to provide full deposit protection. The protection would apply to all Hong Kong dollar and foreign currency deposits held in authorized institutions, including branches of overseas institutions. In addition, the government has established a Contingent Bank Capital Facility (CBCF) for the purpose of making available additional capital to locally incorporated licensed banks, on request and subject to supervisory scrutiny should this become necessary. Both measures take immediate effect and will remain in force until the end of 2010.

To ease money-market stress, the Hong Kong Monetary Authority has injected liquidity into the banking system; announced temporary measures to provide liquidity assistance to banks; amended the formula for calculating the Base rate which would effectively lowering borrowing costs at the Discount Window; and increased the supply of Exchange Fund Paper.

1.2.2 Measures to boost the real economy

i) Implementation of infrastructure projects: The government will expedite the implementation of infrastructure projects. While ten major infrastructure projects[1] involve a lot of statutory procedures and preparatory planning, the government will kick start some projects of smaller scale in various districts. About 85 projects (each will cost between US$ 1.9-2.7 million) can start immediately and hence create more jobs.

ii) Job creations: The government will make a provision of US$205 million to create 62,000 jobs and internship opportunities in the next three years. These jobs are to be provided through expediting infrastructure projects, advancing recruitment of civil servants and creating temporary positions.

iii) Loan guarantee scheme: The government has expanded the Special Loan Guarantee Scheme for enterprises and increased the maximum commitment to about US$12.8 billion while continuing to provide 70% loan guarantees. It raises the loan ceiling for each company from about US$ 128,000 to about US$ 770,000. The loan is allowed to use not only as operating funds but also for other purposes

[1] the added value to the economy of these projects from commissioning to a mature stage will be more than US$ 13 billion annually and some 250,000 additional jobs will be created

such as commercial overdraft and letter of credit. The scheme is applicable to all firms except listed companies.

iv) Export credit insurance: The government has introduced some immediate measures in terms of providing export credit insurance to the SMEs by the Hong Kong Export Credit Insurance Corporation. It provides cover for the payment risks arising from the buyers' failure to take delivery of goods which are usually not covered by other insurance companies in the market.

1.3 Support from the Central Government: Premier Wen Jiabao has announced a few schemes to boost the economy of Hong Kong by further liberalisation of Renminbi RMB business in Hong Kong, supporting more mainland firms to listing in Hong Kong, expansion of individual visit scheme (IVS) of mainland residents to Hong Kong, facilitation of infrastructure projects related with Hong Kong and the Pearl River Delta and easing business restrictions on Hong Kong firms to do business in the mainland. According to Premier Wen Jiabao, to maintain financial stability and the status of Hong Kong as an international financial centre is crucial for Hong Kong to tackle the financial crisis. To reinforce it, plans have been drawn up for RMB trade settlement in Hong Kong and will be implemented upon the approval of the State Council. Expansion of individual visit scheme (IVS) will enable more individual travellers to visit Hong Kong. It will certainly help inbound tourism covering retail trade, hotel industry as well as food & beverage sector.

1.4 Economic integration with Mainland China: Hong Kong's trade with China is to a large extent related to outward processing activities. More than 80% of Hong Kong manufacturers have established production facilities in China. In 2008, Hong Kong's domestic exports were confined to about 3.2% of its total exports while re-exports accounted for about 96.8% of its total exports. Hong Kong is the most important entrepôt for China. If re-exports to and from China are included, about 17% of China's foreign trade is handled via Hong Kong.

Hong Kong is the largest source of overseas direct investment in China. By the end of 2008, among all the overseas-funded projects registered in China, 45% were tied to Hong Kong interests. The stock of utilized capital inflow from Hong Kong amounted to USD 350 billion, accounting for 40% of the national total. On the other hand, China is the biggest investor in Hong Kong. According to the HK Census and Statistics Department, China's cumulative direct investment in Hong Kong was USD 479 billion or 41% of Hong Kong's total stock of inward direct investment at the end of 2007.

Hong Kong is a key offshore capital-raising centre for Chinese enterprises. As of December 2008, total market capitalization of Mainland companies listed in Hong Kong reached USD 790 billion or 60% of the market total. In the past 10 years, mainland companies have raised more than USD 180 billion in Hong Kong.

For information on the Closer Economic Partnership Arrangement (CEPA) and Pan-Pearl River Delta (PPRD) Cooperation, please refer to 2.2 and 2.3

1.5 Situation of HK enterprises in the Pearl River Delta PRD: According to the Hong Kong Trade Development Council (HKTDC), there are about 57,500 HK-funded factories in the PRD. In a move to upgrade the processing trade and to contain the production activities of "high energy consumption, high pollution and resource consumption" industries, China has strengthened its control of the processing trade and adjusted relevant regulations since the second half of 2006. Furthermore, the labour contract law, which took effect in January 2008 in China, has increased overall labour costs. Many enterprises have experienced labour disputes with their employees since the enforcement of the new law.

Amid the global financial crisis, they receive fewer orders and suffer from tighter credit. An industry source suggested that about 20,000 HK-owned businesses in the mainland will collapse if conditions do not improve significantly.

The Chinese government has recently announced some relief measures such as raising the VAT rebate rates for certain exports, which may help ease the pain of Hong Kong manufacturers in the PRD. The Guangdong Government has also put forth a package of policies to assist enterprises in the PRD, including those coming from Hong Kong, Macao and Taiwan. They entrust RMB 1 billion into a state-owned reinsurance company that can provide loan guarantees for SMEs applying loans from banks. They have set aside RMB 500 million of grants for those enterprises who have succeeded in transformation or relocation. An additional RMB 1 billion will be allocated to sponsor enterprises in their efforts to upgrading technology and acquiring well-known brands. The Guangdong Government has announced a reduction in employers' social security contribution and waived about 100 items of administration fees to ease the financial burden on enterprises. The Guangdong Customs also pledged to improve their administrative efficiency and provide customised facilitating services for importers and exporters.

The Guangdong Development and Reform Committee recently published the Guiding Opinions on Promoting Industrial Relocation and Cooperation in the Pan PRD Region. Guangdong will persist in orderly relocation of Pan PRD industries. In other words, they will continue to take actions to relocate enterprises not complying with the industrial policies of the PRD. Thus Hong Kong companies failing to upgrade their quality and technology are bound to being eliminated.

1.6 Public Finance: In the 2009-10 Budget released on 25th February 2009, Financial Secretary John Tsang announced to adopt counter-cyclical strategies to boost the economy. The focus of the budget was on preserving employment for the short term; promoting a more sustainable economic development by strengthening the fundamentals and developing new economic initiatives in the longer run. The government forecasts a deficit of US$5.1 billion in 2009-10, which accounts for 2.4% of the GDP. Budgetary deficits are expected to continue but decline gradually from US$5.1 billion in 2009-10 to US$160 million in 2013-14. The situation of the public finance is not perfect but affordable. The deficits only account for a moderate percentage of the GDP. Moreover, Hong Kong has strong fiscal reserves.

1.7 US Dollar peg: The Linked Exchange Rate System (HK$7.8: US$1) has been introduced to stabilize the then volatile economy and financial market since 17th October 1983. The Hong Kong Government has reaffirmed its commitment to maintain the dollar peg amid the turbulent situation in the global financial market. The government claims that the dollar peg system has been running effectively in both good and bad times.

2. International and regional economic agreements

2.1 HK's policy and priorities

Hong Kong is a free port which thrives on free trade. Its open door policy has enabled the city to become the world's 12th largest trading economy and an international financial and commercial centre serving the Asia-Pacific region and China. The cornerstone of this approach is a strong and credible multilateral trading system.

Hong Kong is a founding member of the World Trade Organization (WTO). Hong Kong became a member of the Asia-Pacific Economic Cooperation (APEC) and the Pacific Economic Cooperation Council (PECC) in 1991. Hong Kong belongs, in its own right, to the Asian Development Bank (ADB) and the World Customs Organization (WCO). Since April 1994, Hong Kong has been an observer in the Trade Committee of the Organization for Economic Cooperation and Development (OECD).

2.2 Closer Economic Partnership Arrangement (CEPA)

The Closer Economic Partnership Arrangement (CEPA) is the first ever regional trade agreement signed between China and Hong Kong. It was signed in 2003 and came into effect from Jan. 2004. It covered 3 broad areas, namely 1) trade in goods, 2) trade in services and 3) trade and investment facilitation. As a living agreement, the scope of market access and liberalization measures have been expanded progressively under CEPA II – IV in subsequent years.

China and Hong Kong signed CEPA V covering further services liberalization measures on 29th July 2008. With the approval of the Central People's Government (CPG), Hong Kong and Guangdong will also implement a package of liberalisation and facilitation measures on an early and pilot basis to enhance mutual economic and trade co-operation.

Further liberalization measures under CEPA V

Under CEPA V, the Mainland introduced 29 liberalisation measures covering 17 services sectors, including existing sectors such as conventions and exhibitions, banking, construction and related engineering services, social services, tourism, accounting, medical and dental services as well as two new sectors, namely services incidental to mining, and related scientific and technical consulting services. The total number of service sectors covered by CEPA increased from 38 to 40.

Deepening Economic and Trade Co-operation with Guangdong Province

As a further step to deepen Hong Kong-Guangdong economic and trade co-operation, the Governments of Guangdong and Hong Kong will implement a total of 25 liberalisation and facilitation measures for early implementation in Guangdong, covering accounting, construction as well as related engineering, medical and dental, placement and supply services of personnel, environment, social services, tourism, education, maritime transport, road transport and individually-owned stores. Out of these total 25 liberalisation measures, 17 are covered under CEPA. 8 other measures in the area of tourism, education, environment, advertising and distribution services are not included under CEPA.

Economic Benefits

According to a study of the HKSAR Government released in June 2007, CEPA created more than 38,500 jobs and the CEPA-induced capital investment reached about US$ 1 billion in 2004-2007.

Out of 16.8 million Chinese tourists to Hong Kong in 2008, 9.6 million Chinese tourists (57% of total and 12% more than in 2007) travelled under the individual visit scheme (IVS) which was introduced in CEPA. It is arguable that many Chinese tourists would still have travelled to Hong Kong even without the IVS. Nevertheless, the IVS facilitates people’s flow, promotes cross-boundary understanding and tighten business contact between the mainland and Hong Kong. These benefits are intangible and difficult to measure and quantify.

CEPA offers a good platform for Hong Kong products and services to have an effective access to China even though they have to face intensifying competition from Chinese companies and multinational competitors.

It has also helped to rebuild confidence in the economy after a prolonged period of economic slowdown caused by the Asian financial crisis and aggravated by the SARS outbreak.

The mainland has undergone rapid economic development over the past two decades. The secondary industry has thrived and has outstripped development in the tertiary industry. To achieve more balanced growth and to take the economic development to a higher level, the Chinese Government has acknowledged the need to strive for quality growth supported by an efficient services sector. The significant part of CEPA to the mainland lies with the intangible benefits, that is, the transfer of quality capital and management and professional skills to the mainland for its long term economic development.

Under CEPA V and the Guangdong pilot measures, there are new business opportunities on the mainland for Hong Kong businesses and service suppliers. Town planners, architects, surveyors, social workers, language teachers, human resources specialists and doctors are major beneficiaries of the 11 supplementary agreements signed between Hong Kong and Guangdong.

According to the Ministry of Commerce in the Mainland, Guangdong is chosen as a pilot province for some additional liberalisation measures because of the geographic proximity and the strong economic ties between Hong Kong and Guangdong. This is a firm step forward for Hong Kong-Guangdong economic co-operation under the new concept of a "special co-operation sphere", as championed by the Guangdong party chief Wang Yang. Wang Yang has been advocating "liberalised thinking" in Guangdong's growth model and rekindled special interest in Hong Kong's experience and potential. The Guangdong provincial government is fully aware of the needs to accelerate the development of service industries and to develop high-end manufacturing industries.

Premier Wen Jiabao announced in March 2009 that a new supplement to CEPA would be signed this year, with initiatives to further increase Hong Kong access to service sectors in China.

Outlook for Switzerland

According to the information in our possession, some Swiss companies in Hong Kong take advantage of CEPA and have been qualified as Hong Kong Service Suppliers under CEPA and operating their business in China.

A Swiss company, qualified as a Hong Kong Service Supplier under CEPA, mentioned that CEPA as a whole was "useful, positive and beneficial" to their business in China. However, CEPA was an agreement signed between the Central Government and HKSAR Government and its implementation depended on the co-operation of various provinces, municipalities, cities and local authorities. According to their experience, they had to encounter problems such as bureaucracy, different legal system, sophisticated tax regime, unpredictable modification and different interpretation of rules and regulations at the early stage of their entry to China. After some years of practical experience and more openness of China in general, their operation is now much smoother than before. At present, they have established two offices in China under the framework of CEPA. They are quite pleased with the present status.

2.3 Pan-Pearl River Delta (PPRD) Cooperation

The "Pan-Pearl River Delta (PPRD)[2] Regional Co-operation Framework Agreement" was signed in 2004. The PPRD regional governments agreed to strengthen cooperation in 10 areas – infrastructure, investment, business and trade, tourism, agriculture, labour, education and culture, information and technology, environmental protection, health and prevention of infectious disease.

During the 4th PPRD Regional Co-operation and Development Forum in June 2007, according to the HKSAR Government, Hong Kong would continue to capitalise on its niche in financial services to facilitate PPRD enterprises to raise capital and go global through Hong Kong. Moreover, the HKSAR Government would establish an information exchange platform between relevant sectors in Hong Kong and the PPRD provinces and regions in order to facilitate industrial upgrading, restructuring and relocation. Moreover, Hong Kong could serve as a bridge connecting the PPRD Region with ASEAN countries as far as trade and investment are concerned.

The 5th PPRD Regional Co-operation and Development Forum, supposedly to take place in June 2008, was postponed due to the earthquake in Sichuan.

3. Foreign trade
3.1 Development and general outlook
3.1.1 Trade in goods

According to the HKTDC, Hong Kong is the world's 12th largest trading economy. Total exports of Hong Kong increased by 5.1% and reached US$362 billion in 2008. Domestic exports dropped to US$ 12 billion (-17%) whereas re-exports grew to US$ 350 billion (+6%). Major export markets were China (49% of total exports), the US (13%), Japan (4.3%), Germany (3.3%) and UK (2.7%). Major export products were electrical machinery and apparatus (25%), telecom equipment (17%), office machines and computers (9.9%), clothing (7.7%) and textiles (3.4%).

Imports rose to US$ 388 billion (+5.5%) in 2008, following a 10% increase in 2007. Major supplier countries were China (47% of total imports), Japan (9.8%), Singapore (6.4%), Taiwan (6.3%) and the US (5%). Major import products were electrical machinery and apparatus (25%), telecom equipment (14%), office machines and computers (8.8%), clothing (4.8%) and textiles (3.2%).

Regulations: Hong Kong is a free port and there is no tariff on general imports except duty on liquors, tobacco, hydrocarbon oil and methyl alcohol.

[2] The PPRD region, also known as "9+2", comprises nine provinces/regions including Fujian, Jiangxi, Hunan, Guangdong, Guangxi, Hainan, Sichuan, Guizhou and Yunnan, as well as Hong Kong and Macao Special Administrative Regions.

There are no regulatory measures impinging on international trade other than those required to discharge international obligations or to protect health, environment and access to hi-technology.

3.1.2 Trade in services

Exports of services amounted to US$ 92 billion (+9%) in 2008, following a strong increase of 17% in 2007. It included: transportation services (31% of total exports of services, increased by 11%), trade-related services (30% of total exports of services, increased by 9.9%), travel services (17% of total exports of services, increased by 10%), financial services (14% of total exports of services, increased by 1.7%), other services (8% of total exports of services, increased by 7.2%) and insurance services (0.5% of total exports of services, increased by 7.7%).

In 2007 (latest available information), exports of services by main destinations were China (US$ 20.7 billion, 25% of total, grew by 18%), the US (US$ 17.8 billion, 22% of total, grew by 17%), the UK (US$ 6.7 billion, 8% of total, grew by 17%), Japan (US$ 5.8 billion, 6.9% of total, grew by 12%) and Taiwan (US$ 4.6 billion, 5.6% of total, dropped by 0.3%).

Import of services amounted to US$ 46 billion (+7.5%) in 2008. It included: travel services (35% of total imports of services, increased by 5.4%), transportation services (33% of total imports of services, increased by 7%), other services (17% of total imports of services, increased by 8.7%), trade-related services (7% of total imports of services, increased by 8.6%), financial services (7% of total imports of services, increased by 18%) and insurance services (2% of total imports of services, increased by 6.7%).

In 2007 (latest available information), imports of services by main sources were China (US$ 11.3 billion, 27% of total, grew by 15%), the US (US$ 6.2 billion, 15% of total, grew by 14%), Japan (US$ 3.5 billion, 8% of total, grew by 12%), the UK (US$ 3.2 billion, 8% of total, grew by 10%) and Singapore (US$ 2.4 billion, 6% of total, grew by 22%).

3.2 Bilateral trade
3.2.1 Trade in goods

According to the Hong Kong Census and Statistics Department (HKCSD), Switzerland was the 14th largest trading partner of Hong Kong in 2008. Switzerland was Hong Kong's 12th largest supplier and 20th largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 6.2 billion (+17%) in 2008. Major Swiss exports included watches and clocks (44% of total, increased by 11%, CHF 2.7 billion in value), jewellery & precious metal (35% of total, increased by 41%, CHF 2.1 billion in value), chemical and pharmaceutical products (7.3% of total, increased by 3.6%, CHF 454 million in value) and machinery (6.2% of total, dropped by 13%, CHF 382 million in value).

In 2008, Swiss exports to mainland China (CHF 6.1 billion in value) and Hong Kong (CHF 6.2 billion in value) accounted for 5.7% of global Swiss exports, bringing China (incl. Hong Kong) to the position of Switzerland’s most important market in Asia, ahead of Japan (3.3%). On the other hand, Swiss imports from China (CHF 5 billion) and Hong Kong (CHF 1.4 billion) totalled CHF 6.4 billion. Switzerland got a trade surplus worth CHF 5.8 billion.

Hong Kong's total exports to Switzerland rose to CHF 1.4 billion (+22%) in 2008. Major total exports included jewellery & precious metal (59% of total, increased by 36%, CHF 853 million in value), watches and clocks (20% of total, increased by 13%, CHF 292 million in value), machinery (9.8% of total, decreased by 1.4%, CHF 141 million in value) and textiles and garments (3.2% of total, dropped by 19%, CHF 46 million in value).

According to the HKCSD, Swiss exports to Hong Kong totalled USD 5,980 million (+31%) in 2008 of which goods worth US$ 1,901 million were re-exported to other countries and notably to China. Swiss goods worth US$ 867 million (grew by 24%) were re-exported to China via Hong Kong in 2008. Major products were watches and clocks (US$ 275 million), medicaments (US$ 125 million), silver and platinum (US$ 70 million), measuring instruments (US$ 36 million), machine tools (US$ 32 million) and colouring matter (US$ 25 million).

There has been a notable growth for Swiss products entering China via Hong Kong in recent years, from US$ 518 million in 2005, US$ 610 million in 2006, US$ 700 million in 2007 and US$ 867 million in 2008. In this regard, Swiss exporters and manufacturers may make use of Hong Kong as a known entrepôt and trade hub (which has a huge cluster of traders who are experienced in the market of China) to do business with China.

According to the HKCSD, Hong Kong exports to Switzerland totalled US$ 2,659 million in 2008. Among them, products of Chinese origin worth US$ 1,366 million (grew by 25%) were re-exported to Switzerland via Hong Kong. Major products were watches and clocks (US$ 559 million), silver and platinum (US$ 170 million), clothing (US$ 146 million), electrical machinery (US$ 103 million), jewellery (US$ 80 million) and telecom equipment (US$ 33 million).

Outlook for Swiss exports to Hong Kong

Renowned brands and luxury items from all over the world are well presented in Hong Kong. Swiss products, such as watches, jewellery, clothing, footwear, leather goods and skin care products, enjoy an excellent reputation in the market. They are not only appealing to local consumers, but also winning popularity among tourists, in particular from China (tourists from China reached 16.8 million or 57% of total visitor arrivals in 2008). Hong Kong is a window of the world to Chinese tourists who have high consuming power.

According to an industry source, Chinese tourists accounted for about 70% of sales of Swiss hi-end watches in watch shops in HK before the financial crisis. At present, when the world is hit hard by the financial crisis, consumption of Chinese tourists is so dominant that it accounts for about 80-90% of the sales of Swiss hi-end watches. In the sector of beauty products[3], according to a leading cosmetic retailer, Chinese tourists account for about 40-45% of their total sales in Hong Kong.

Nevertheless, the financial crisis has brought sharp corrections in both the stock markets of China and Hong Kong[4]. Furthermore, the property prices in China and Hong Kong have undergone downward adjustments. The negative wealth effects on local consumers and Chinese visitors and gloomy global economic prospects certainly dent consumer sentiment. In addition, unemployment rate rose rapidly and sharply to 5% in Dec. 08-Feb. 09. The Hong Kong Government estimated that unemployment rate would rise further in the near term.

The Beijing Government agrees to expand individual visit scheme (IVS) of mainland residents to Hong Kong. It may help retail sales to a certain extent. However, since these new visitors are either non-permanent Shenzhen residents or residents from remote cities and provinces, their consuming power may not be as high as those who travelled under the earlier phases of IVS.

According to the Federation of the Swiss Watch Industry, Swiss watch exports to Hong Kong dropped by 8.3% in the first two months of 2009. That said, the fall is already less drastic than some other major markets (dropped by 38%, 19% and 36% in US, Japan and China respectively). When compared with Jan-Feb. 2007, it still marked a growth of 14.9%.

Given the present economic climate, this year will be a difficult and challenging year for Swiss exports as a whole to Hong Kong.

3.2.2 Trade in services

According to the HKCSD, Hong Kong's exports of services to Switzerland amounted to US$ 1,056 million (1.3% of total exports of services, increased by 47%) in 2007 (latest available information). Switzerland ranked 12th largest market for Hong Kong's exports of services. It consisted of transportation services (US$ 464 million), travel services (US$ 35 million), insurance services (US$

[3] Swiss beauty products imported to HK registered a growth of 32%, 19% and 22% in 2006, 2007 and 2008 respectively. The growth was remarkable and above the trend.

[4] Hang Seng Index in Hong Kong rose to 31,638, an all-time high record, in October 2007 and closed at 12,976 on 16th March 2009. SSE Composite Index in Shanghai reached 6,124 in October 2007 and closed at 2,153 on 16th March 2009.

5.8 million), financial services (US$ 93 million), trade-related services (US$ 235 million) and other services (US$ 223 million).

Hong Kong’s imports of services from Switzerland reached to US$ 322 million (0.8% of total imports of services, increased by 19%) in 2007. Switzerland ranked 19th largest supplier in this category. It consisted of transportation services (US$ 66 million), travel services (US$ 39 million), insurance services (US$ 32 million), financial services (US$ 32 million), trade-related services (US$ 4.9 million) and other services (US$ 148 million).

4. Direct Investments

4.1 Development and general outlook

According to the HKCSD, at the end of 2007, the stock of Hong Kong's inward direct investments was up by 59% to US$ 1,178 billion. Major investor countries were China (US$ 479 billion or 41% of total, grew by 84%), British Virgin Islands BVI (US$ 431 billion or 37% of total, grew by 72%), the Netherlands (US$ 68 billion or 5.8% of total, grew by 36%), Bermuda (US$ 49 billion or 4.2% of total, grew by 8.9%) and the US (US$ 36 billion, 3% of total, insignificant change in the stock).

China featured highly both as a destination for Hong Kong's outward direct investment (US$ 439 billion or 43% of total, ranked 2nd after BVI) and as the biggest source of HK's inward direct investment (as mentioned earlier). The substantial cross-boundary investment between China and Hong Kong reflected the close economic links between the two places.

The ratios of inward and outward direct investments were 568% and 488% of GDP respectively in 2007. It reflected Hong Kong as a highly externally oriented economy and an important business centre in the region with substantial cross-boundary investment. The highly ranked BVI and Bermuda reflected a common practice of Hong Kong and foreign enterprises in setting up non-operating companies in these offshore financial centres (known as tax haven economies) for channelling direct investment funds back to Hong Kong.

According to the International Monetary Fund (IMF), inward portfolio investments to Hong Kong reached US$ 782 billion (+35%) in 2007. Major investor countries were China (166 billion or 21% of total, grew by 68%), Cayman Islands (US$ 132 billion or 17% of total, grew by 71%), Bermuda (US$ 104 billion or 13% of total, grew by 63%), the UK (US$ 74 billion or 9.5% of total, grew by 2.8%) and the US (US$ 71 billion or 9% of total, grew by 9.2%).

In Hong Kong, there is neither restriction on inward and outward investments nor nationality restrictions on corporate or sectorial ownership.

4.2 Bilateral investment flows

According to the HKCSD, Swiss direct investments in Hong Kong were about US$ 4.1 billion (0.4% of total, insignificant change in the stock) and ranked the 13th largest investor country in 2007. Swiss portfolio investments in Hong Kong reached US$ 2.4 billion (0.3% of total, grew by 85%) and ranked 22nd investor country in 2007, according to the IMF.

As at 1st June 2008, 53 Swiss companies have set up their regional headquarters in Hong Kong. 63 Swiss companies have set up their regional offices whereas 63 Swiss companies have set up their local offices in Hong Kong. They are classified in various sectors: banking, beauty products, chemicals & pharmaceuticals, consultants, electronics, foodstuffs, freight forwarding, inspection, insurance, machinery/engineering, textiles & garments, watches/jewellery and trading houses, etc..

According to the HKCSD, the outward direct investments from Hong Kong to Switzerland for 2002, 2003 and 2004 were US$ 1.49 billion (ranked 14th), US$ 780 million (ranked 17th) and US$ 564 million (ranked 18th) respectively. The HKCSD compiles for top 20 recipient countries only. As Switzerland dropped out of this category in 2005-2007, the corresponding figure is no longer available.

5. Trade, economic and tourist promotion
5.1 Foreign economic promotion instruments

The Consulate General of Switzerland, the Federation Horlogère, Switzerland Tourism, the Swiss Chamber of Commerce in Hong Kong and the Swiss-Chinese Chamber of Commerce/the Swiss-Hong Kong Business Association are the organisations to promote Swiss economic interests in Hong Kong.

The Swiss Chamber of Commerce in Hong Kong

It is an organization with the mission to provide business platform and networking for Swiss companies and individuals in Hong Kong. It acts as an access to Greater China and Asia Pacific Region. It has consensus voice of the Swiss business community's view towards the HKSAR Government and the Swiss Government.

Its membership is open to Swiss companies as well as companies, individuals and young professionals that have strong ties with Switzerland.

It publishes quarterly issues of "The Bridge" and an annual membership directory in co-operation with the Swiss business communities in Beijing, Guangzhou, Shanghai and Switzerland to meet the challenges of rapid economic development in China.

It jointly organizes luncheons with the Swiss Association of Hong Kong and business chambers with guest speakers to serve as a valuable occasion to exchange ideas and information.

Since a prime business concern of their members lies in the protection of environment, one of its current objectives is to contribute in finding solutions in issues related to environmental matters and particularly to the air pollution in the PRD.

The Consulate General has a close co-operation with the Swiss Chamber of Commerce in Hong Kong such as collaboration in projects and participation at its Committee meetings to exchange views with representatives of various business sectors.

The Consulate General often refers Swiss companies interested in the market of Hong Kong or/and China to the expertise and advice of its members.

Swiss-Chinese Chamber of Commerce/Swiss-Hong Kong Business Association

The Swiss-Chinese Chamber of Commerce is a non-profit association registered in Switzerland. Among their members are the leading Swiss companies in the trade, industry and financial sectors. He network consists of about 800 corporate and individual members. The purpose of the Chamber is to promote and support the global success of the Swiss business community in China. The Swiss-Hong Kong Business Association is established by the Swiss-Chinese Chamber of Commerce and the Hong Kong Trade Development Council HKTDC. The association, in cooperation with the HKTDC, assists its members by providing information and opportunities to interact with experts in doing business with Hong Kong and by helping them to develop the market in China, especially the PRD region.

Switzerland Tourism

According to Switzerland Tourism, Hong Kong visitors staying overnight dropped by 5% to 51,764 in 2008. Switzerland Tourism organised 9 media trips, 2 agent educational trips and 19 promotional activities in 2008. All the above activities helped to promote Switzerland in excellent image and top quality branding.

Fédération Horlogère

The Bienne based Federation of the Swiss Watch Industry (FH) is a private, professional and non-profit association which defends the watch industry's interests and contributes to its development. Its Hong Kong office has regular contacts with watch importers and manufacturers and represents their interests on various matters. One of its activities is the protection of its members' intellectual property rights in Asia (copies, abuses of "Swiss made", trademark infringements, etc.). In Hong Kong and Asia, the Federation launched a watch collector's club called "The Art of Time Club" as well as a website on the watch industry (www.fhs.hk).

5.2 Interests for Switzerland as a location for investment, potential for development

Some Hong Kong companies have acquired Swiss watchmakers and producers of watch movements as a means to extend marketing and distribution network, and/or to gain access to better technology and designs. A noteworthy acquisition was the acquisition of Saia-Burgess by Johnson Electric, a Hong Kong company and one of the biggest manufacturers of micro motors in the world.

Apart from acquisitions, Switzerland as a location of research and development centres or international headquarters may be of interests to a limited number but well-established companies in Hong Kong.

5.3 Interests for Switzerland as a financial location, potential for development

A delegation of the Swiss Bankers Association visited Hong Kong to promote Swiss banking on annual basis in November 2008. The Consulate General of Switzerland organised their meetings/luncheon with media, Swiss banks, Swiss Chamber of Commerce in Hong Kong and senior officials of the HKSAR Government and relevant regulatory bodies.

6. Useful internet links

HK Government agencies:
HKSAR Government (http://www.gov.hk/)
Commerce and Economic Development Bureau (http://www.cedb.gov.hk/)
Trade and Industry Department (http://www.tid.gov.hk)
Census & Statistics Department (http://www.censtatd.gov.hk/)
Invest HK (http://www.investhk.gov.hk/)
Customs and Excise Department (http://www.customs.gov.hk)
HK Monetary Authority (http://www.info.gov.hk/hkma)
Office of the Commissioner of Insurance (http://www.oci.gov.hk/)
Intellectual Property Department (http://www.ipd.gov.hk/)

Swiss Government agencies and export promotion bodies
State Secretariat for Economic Affairs (http://www.seco.admin.ch/)
OSEC Business Network Switzerland (http://www.osec.ch/)

Statutory trade promotion bodies:
Hong Kong Trade Development Council (http://www.tdctrade.com)

Chambers and Associations:
Swiss Chamber of Commerce in HK (http://www.swisschamhk.org)
Swiss Association of Hong Kong (http://www.swiss-hk.com)
Federation of the Swiss Watch Industry, HK Office (http://www.fhs.hk)
HK General Chamber of Commerce (http://www.chamber.org.hk)
Federation of HK Industries (http://www.industryhk.org)
Chinese General Chamber of Commerce (http://www.cgcc.org.hk)
Chinese Manufacturers' Association (http://www.cma.org.hk)

Newspapers:
South China Morning Post (http://www.scmp.com)
The Standard (http://www.thestandard.com.hk)
Asian Wall Street Journal (http://www.wsj-asia.com)

Trade exhibitions calendar: (http://www.tdctrade.com/exh-con)

Appendices

1. Structure of the economy
2. Essential economic data
3 Trading partners
4 Bilateral trade between Switzerland and Hong Kong
5. Main investor countries

<u>Appendix 1</u> **Structure of Economy**

	1995	**2006**	**2007**	**% Change 1995 / 2007**
Spreading GDP (%)				
Primary Sector	0.2%	0.1%	0.1%.	-50%
Secondary Sector	16%	8.7%	7.7%	-52%
Tertiary Sector	83.8%	91.2%	92.3%	+10%
- Part of Public Services	N.A.*	N.A.*	N.A.	N.A.*
Spreading Employment				
Primary Sector	0.6%	0.3%	0.2%	-67%
Secondary Sector	27.1%	13.4%	13.2%	-51%
Tertiary Sector	72.3%	86.3%	86.6%	+20%
- Part of Public Services	N.A.*	N.A.*	N.A.	N.A.*

*N.A. Not available

Source: Hong Kong Census and Statistics Department

Appendix 2

Essential Economic Data

	2002	2003	2004	2005	2006	2007	2008
GDP (USD billion)	159.9	158.5	165.8	177.3	189.1	207.1	215.2
GDP per capita (USD)	23,466	23,150	24,100	26,000	27,600	29,900	30,800
GDP growth (%)	1.9	3.2	8.6	7.1	7.0	6.4	2.5
Inflation (%)	-3.0	-2.6	-0.4	1.0	2.0	2.0	4.3
Unemployment rate (%)	7.3	7.9	6.9	5.6	4.8	4.0	3.5
Fiscal balance (% of GDP)	-4.8	-3.3	-0.3	1.0	4.0	7.2	-0.3
Current account balance (% of GDP)	7.9	10.4	9.5	11.4	10.8	12.3	13.5
Total external debt (% of GDP)	-	-	1	0.9	-	-	-
Debt-service ratio (% of exports)	2.1	1.8	-	-	-	-	-
Reserves (in months of imports)	22.6	23.3	21.1	19.8	18.6	19.5	22.3

Sources: HKSAR Government, IMF

Appendix 3

Trading Partners 2008

	Exports to country/region	Exports (USD millions)	Share (%)	Growth* (%)
1	China	175,698	49	4.7
2	USA	46,058	13	-2.4
3	Japan	15,507	4.3	1.2
4	Germany	12,044	3.3	16
5	UK	9,665	2.7	0.7
6	Singapore	7,092	2	9.6
7	Taiwan	7,044	1.9	3.8
8	India	6,692	1.8	50
9	Korea Rep	6,354	1.8	-6.4
10	Netherlands	5,811	1.6	2
	EU	49,534	14	6.2
20	**Switzerland**	**2,659**	**0.7**	**47**
	Total	362,071	100	5.1
	Imports from country/region	**Imports (USD millions)**	**Share (%)**	**Growth* (%)**
1	China	180,863	47	6.1
2	Japan	38,148	9.8	3.6
3	Singapore	24,994	6.4	0.1
4	Taiwan	24,621	6.3	-6.4
5	USA	19,325	5	8.6
6	Korea Rep	15,139	3.9	-1.1
7	Malaysia	8,479	2.2	5.3
8	Thailand	8,174	2.1	11
9	India	7,438	1.9	22
10	Germany	6,851	1.8	11
	EU	29,291	7.6	12
12	**Switzerland**	**5,980**	**1.5**	**31**
	Total	387,857	100	5.5

* year-on-year basis

Sources : Hong Kong Census & Statistics Department, Hong Kong Trade Development Council

Appendix 4 Bilateral Trade Table

Bilateral trade Switzerland – Hong Kong

	Exports (CHF million)	% Change	Imports (CHF million)	% Change	Trade Balance	Total Imp./Exp.	% Change
1990	2'265	4.3%	902	-17.3%	1'363	3'166.8	-
1995	2'843	-10.0%	642	-4.3%	2'201	3'485.3	10%
2000	3'842	31.9%	895	36.3%	2'947	4'736.1	32.7%
2001	4'039	5.1%	679	-24.1%	3'360	4'718.6	-0.4%
2002	4'479	10.9%	824	21.3%	3'655	5'304.0	12.4%
2003	4'002	-10.7%	648	-21.3%	3'353	4'650.9	-12.3%
2004	4'073	1.8%	822	26.6%	3'251	4'894.2	5.2%
2005	4'012	-5.3 %	1'674	52.4%	2'338	5'686.0	16.2%
2006	4'694	17.0%	1'457	-13.0%	3'237	6'151.0	8.2%
2007	5'296	12.8%	1'185	-18.6%	4'111	6'481	5.4%
2008	**6'203**	**17.1%**	**1'440**	**21.5%**	**4'763**	**7'643**	**17.9%**

Major products

Exports	2007		**2008**		
	% of total	CHF million	**% of total**	**CHF million**	**% Change 2007/2008**
1. Watches and clocks	46	2'432	**44**	**2'697**	**11**
2. Jewellery and precious stones	29	1'523	**35**	**2'143**	**41**
3. Chemical and pharmaceutical products	8.3	438	**7.3**	**454**	**3.6**
4. Machinery	8.3	440	**6.2**	**382**	**-13**

Imports	2007		**2008**		
	% of total	CHF million	**% of total**	**CHF million**	**% Change 2007/2008**
1. Jewellery and precious stones	53	626	**59**	**853**	**36**
2. Watches and clocks	22	257	**20**	**292**	**13**
3. Machinery	12	143	**9.8**	**141**	**-1.4**
4. Textiles and garments	4.7	56	**3.2**	**46**	**-19**

Appendix 5

Major investor countries/regions 2007

Rank	Country/Region	Direct investments (USD billion)	Share (%)	Growth (%)	Change of inflow (USD billion)
1	China	479	41%	84%	-0.6
2	British Virgin Islands	431	37%	72%	3.9
3	Netherlands	68	5.8%	36%	1.3
4	Bermuda	49	4.2%	8.9%	0.5
5	USA	36	3%	0%	-2
6	Japan	21	1.8%	11%	-0.5
7	UK	17	1.4%	21%	1
8	Cayman Islands	14	1.2%	7.7%	-1
9	Singapore	14	1.2%	27%	1.1
10	Taiwan	5.1	0.4%	19%	-0.8
	EU	96	8.1%	34%	5.4
13	**Switzerland**	**4.1**	**0.4%**	**0%**	**0.03**
	Total	1,178	100 %	59%	9.5
Rank	**Country/Region**	**Portfolio investments (USD billion)**	**Share (%)**	**Growth (%)**	**Change of inflow (USD billion)**
1	China	166	21%	68%	N.A.
2	Cayman Islands	132	17%	71%	N.A.
3	Bermuda	104	13%	63%	N.A.
4	UK	74	9.5%	2.8%	N.A.
5	USA	71	9%	9.2%	N.A.
6	Australia	43	5.5%	0%	N.A.
7	Luxembourg	27	3.5%	29%	N.A.
8	Japan	21	2.7%	11%	N.A.
9	Republic of Korea	20	2.6%	43%	N.A.
10	Ireland	17	2.2%	89%	N.A.
22	**Switzerland**	**2.4**	**0.3%**	**85%**	N.A.
	Total	782	100%	35%	N.A.

*N.A. Not available

Sources : Hong Kong Census & Statistics Department, IMF